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DE RUEHGB #2776/01 2880816

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FM AMEMBASSY BAGHDAD

TO RUEHC/SECSTATE WASHDC PRIORITY 5093

INFO RUCNRAQ/IRAQ COLLECTIVE PRIORITY

RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 002776

SIPDIS

E.O. 12958: DECL: 10/14/2018

TAGS: [ECON](#) [POL](#) [PGOV](#) [PREL](#) [EINV](#) [ETRD](#) [EINT](#) [IZ](#)

SUBJECT: IRAQ INVESTMENT CONFERENCE: DELIVERING A CLEAR MESSAGE

REF: BAGHDAD 2744

Classified By: A/DCM Gary Grappo for reasons 1.4 b and d

**¶1. (C) Summary:** The October 19 U.S.-Iraq Dialogue on Economic Cooperation (DEC) and the October 20-21 Business and Investment Conference (BIC) will put the spotlight on Iraq's aspirations to participate more fully in the global economy. U.S. and Iraqi government officials can expect questions from the press, public, and our own USG colleagues about our expectations for these events and our thoughts about Iraq's economic future. Welcoming foreign participation in Iraq's domestic economy is not an attitude that comes easily to many Iraqis, despite a widespread desire to accelerate economic growth and job creation. We offer herein some thoughts on the messages and context shaping our DEC and BIC. END SUMMARY.

#### USG Motivations for Hosting the Investment Conference

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**¶2. (C)** The Business and Investment Conference was born not of purely commercial interests, but rather from the USG's commitments in the Strategic Framework Agreement (SFA) to support Iraq's economic development and to encourage foreign investment here. Post recognizes the many challenges facing anyone attempting to do business in and with Iraq; that said, Iraq still offers unique opportunities and substantial future potential. It is in the United States' strategic interest to foster diversified economic growth here and also to ensure that U.S. companies get their feet in the door early in this process.

**¶3. (C)** While the government of Iraq (GOI) has begun telling the world that it is now "open for business," it is not clear that the government fully understands the need to create an investment climate that will attract cautious, profit-driven investors. Nor is it clear that Iraqis fully understand the profit motives of private sector companies from the international community. Consistent with decades of state control over nearly every aspect of the economy, some GOI officials believe that the USG can command private companies to make an investment or engage in a contract. Further, some GOI officials have unrealistic expectations about Iraq's intrinsic appeal to investors, or the valuation of its assets and services. (Reftel describes the GOI's continued statist approach to economic management.)

**¶4. (C)** The bilateral DEC provides a venue for quiet, firm government-to-government discussions. The investment conference, however, will be an opportunity for GOI officials to hear concerns and expectations directly from private companies with money to invest, rather than USG officials. This may well be the most important outcome of the conference. The GOI also will get a sense of how Iraq compares with other countries competing for foreign direct investment. Iraq would do well to set its sights on creating a globally competitive economy, rather than settling on the oil-dependent models of its neighbors.

15. (C) Helping Iraq's economy stabilize, grow, and diversify through U.S. and other foreign investment supports our strategic goals. For example, a strong, open economy that produces sufficient jobs for Iraq's growing population would bolster Iraq's still-inexperienced government and help provide political stability. Ensuring U.S. companies' entry to Iraq, however, is good not just for Iraq itself, but for the U.S. economy in a narrower commercial sense. In many ways, Iraq's economy is a blank slate. If U.S. firms gain an early foothold here, they will influence the adoption of U.S. business models, procedures, standards, and products. (As was the case in the 1960's and 1970's in Saudi Arabia where a robust U.S. training and advisory mission, coupled with an equally ambitious business presence helped set the stage for that country's economic development and current long term ties to U.S. business.) This could give U.S. companies advantages in follow-on business development. Our firms would also get an early start in developing relationships critical for productive business ventures in Iraq.

Some Talking Points...

16. (SBU) The Washington interagency and Embassy Baghdad is preparing issues papers for the DEC. During the DEC and the conference, it will be useful if USG officials also keep a few broader themes and messages in the fore, for use with GOI as well as the press. We suggest drawing from the following points.

USG Messaging to the GOI

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--It is important that the senior GOI decision makers and leaders at the BIC listen and respond thoughtfully to the concerns and questions of U.S. and other investors regarding foreign investment.

--The burden of proof is on Iraq to show that it is serious about wanting to attract foreign investment. Despite very promising steps (such as the passage by the Consul of Representatives on October 13 of important amendments to the National Investment Law) the Iraq government's record on encouraging foreign participation in the economy is mixed.

--GOI representatives should be prepared for tough questions from a skeptical audience. Potential investors will likely ask about regulatory reform, investment laws, contract performance, a weak banking system, land use issues, and regulations and laws that appear to support the Arab League Boycott.

--Non-payment issues for contracts with the GOI and support of Iraqi state-owned companies over private companies damage the investment climate and create negative press stories.

--An independent and empowered judiciary with a specific focus on contracts and arbitration is an important concern for serious international investors. Iraq's signing agreements to honor international arbitral awards, such as the New York Convention, also would be an important signal to foreign business people.

Universal Message for Press, Private Sector, etc.

--The Iraq National Investment Commission has worked with the U.S. Chamber of Commerce, the Department of State and the Department of Commerce in planning for the BIC.

--The Iraqi delegation will include not only senior Iraqi ministers and officials from the national government, but provincial and Kurdish Regional Government (KRG) governors and officials as well. Additionally, Iraq's private sector will be strongly represented with participants from nearly every province.

--Among the market sectors that will be highlighted at the BIC are oil and gas, power generation, agriculture, housing and construction, transportation, banking/finance, industry, and telecommunications.

--We're hoping that the new relationships formed at the conference between American and Iraqi businesspeople and officials will lead to substantial increases in investment and trade between our two nations.

--We are confident that American companies will play an important role in helping Iraq's economy to grow and diversify.

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